Solution 24.1

	Debit	Credit
15 July 20X5		
Vehicles: cost	185 000	
Foreign creditor		185 000
Importation of 16 cartwheels: GBP 20 000 x 9.25 (spot rate on transaction date)		
31 July 20X5		
Vehicles: cost	55 000	
Bank		55 000
Further costs incurred on construction of the ox-wagons		
31 August 20X5		
Foreign creditor	185 000	
Bank		198 000
Foreign exchange loss (expense)	13 000	
Payment of foreign creditor: GBP 20 000 x 9.90 (spot rate on payment date); foreign exchange loss 198 000 – 185 000 = 13 000		
31 December 20X5		
Depreciation	7 000	
Vehicles: accumulated depreciation		7 000
Depreciation of ox wagons from date first available for use: (185 000 + 55 000 – 30 000) / 10 years x 4/12		

Note:
When goods are shipped on a FOB basis (free on board), the risks and rewards of ownership transfer on the date that the goods are loaded onto the ship:
- in this case, it means that the transaction date is 15 July 20X5.

Comment:
This is a basic example that deals with the IMPORT of property plant and equipment, payable in a foreign currency. Depreciation (IAS 16) is also recognised.

Solution 24.2

	Debit	Credit
25 July 20X5		
Inventory	760 000	
Foreign creditor		760 000
Importation of advanced monitoring devices: USD 100 000 x 7.60 (spot rate on transaction date)		
31 December 20X5		
Foreign creditor	50 000	
Foreign exchange gain		50 000
Translation of foreign creditor at year-end: 100 000 x 7.10 (spot rate at year-end) – 760 000		
Cost of inventory expense	608 000	
Inventory		608 000
Cost of goods sold (760 000 x 80%)		
Debtors/ Bank	729 600	
Sales		729 600
Revenue from sale of goods (608 000 x 120%)		
2 February 20X6		
Foreign creditor	710 000	
Bank		690 000
Foreign exchange gain		20 000
Payment of foreign creditor: 100 000 x 6.90 (spot rate on payment date); gain made 710 000 – 690 000		

Note:
When goods are shipped on a CIF basis (customs, insurance and freight), the risks and rewards of ownership transfer on the date that the goods arrive safely at their destination:

- in this case, it means that the transaction date is 25 July 20X5.

Had the transaction been FOB, the risks and rewards of ownership would have transferred on the date that the goods were shipped – in which case the transaction date would have been 15 July 20X5.

Comment:
This is a basic example dealing with the IMPORT of inventory and the subsequent sale thereof (IAS2)

Solution 24.3

	US Dollars Debit	Credit
	$	
15 July 20X5		
Foreign debtor	110 000	
Sales		110 000
Export of sheets to British company: GBP 50 000 x 2.20 (spot rate on the FOB transaction date) ***see note 1***		
Cost of inventory expense	20 000	
Inventory		20 000
Cost of goods sold (given: 20 000)		
31 October 20X5		
Foreign debtor	22 500	
Foreign exchange gain		22 500
Translation of foreign debtor on payment date: 50 000 x 2.65 (spot rate on payment date) – 110 000		
Bank	66 250	
Foreign debtor		66 250
Receipt of cash from British company (25 000 x 2.65: spot rate on payment date)		
31 December 20X5		
Foreign exchange loss	6 250	
Foreign debtor		6 250
Translation of foreign debtor at year-end: (50 000 - 25 000) x 2.40: spot rate at year-end – (110 000 + 22 500 – 66 250)		
31 January 20X6		
Foreign debtor	12 500	
Foreign exchange gain		12 500
Translation of foreign debtor on payment date: (50 000 - 25 000) x 2.90 (spot rate on payment date) – 60 000 *where: (50 000 – 25 000) x 2.40 = 60 000*		
Bank	72 500	
Foreign debtor		72 500
Receipt of cash from British company (25 000 x 2.90: spot rate on payment date)		

Note 1:
If the goods had been shipped on a CIF basis (customs, insurance and freight), the risks and rewards of ownership would have transferred on the date that the goods arrive safely at their destination, in which case the transaction date would have been 25 July 20X5.

Comment:
This is an example dealing with the EXPORT of inventory and neither companies are South African. Settlement is also unusual as it takes place in two instalments.

Solution 24.4

	Debit	Credit
1 July 20X5		
Bank	2 000 000	
Long term loan (liability)		2 000 000
Received loan from bank. 30 000 000 / 15 (spot rate on date cash received)		
30 April 20X6		
Finance cost (expense)	142 857	
Interest payable (liability)		142 857
Accrued interest: P30 000 000 x 8% x 10 / 12 = P2 000 000		
P2 000 000 / 14 (average exchange rate over period that interest accrued)		
Foreign exchange loss (expense)	10 989	
Interest payable (liability)		10 989
Translate interest payable at year end: (P2 000 000/ 13: spot rate at year end) – E142 857		
Foreign exchange loss (expense)	307 692	
Long term loan (liability)		307 692
Translating loan at year end: (P30 000 000 / 13: spot rate at year end) – E2 000 000		
30 June 20X6		
Finance cost (expense)	28 169	
Interest payable (liability)		28 169
Interest for May and June accruing: P30 000 000 x 8% x 2/12 = P400 000		
P400 000 / 14.2 = 28 169		
Long term loan (liability)	238 727	
Foreign exchange gain (income)		238 727
Translating loan at payment date: (P30 000 000 / 14.5) – (2 000 000 + 307 692)		
Interest payable (liability)	16 498	
Foreign exchange gain (income)		16 498
Translating interest payable at payment date:		
(P30 000 000 x 0.08)/ 14.5 – (142 857 + 10 989 + 28 169)		
Interest payable	165 517	
Long term loan	41 379	
Bank		206 896
Payment of capital and interest: E41 379 + E165 517		
Capital: P600 000/ 14.5 = 41 379		
Interest: P2 400 000/ 14.5 = 165 517		
30 April 20X7		
Finance cost (expense)	138 028	
Interest payable (liability)		138 028
Accrued interest: (P30 000 000 – P600 000) x 8% x 10 / 12 = P1 960 000		
P1 960 000 / 14.2 (average rate over period that interest accrued)		
Interest payable (liability)	5 596	
Foreign exchange gain (income)		5 596
Translate interest payable at year end: (P1 960 000/ 14.8: spot rate at YE) –E138 028		
Long term loan (liability)	41 100	
Foreign exchange gain (income)		41 100
Translate loan at year end: (P30 000 000–600 000)/ 14.8: spot rate at YE –E2 027 586		
E2 027 586 (P30 000 000 – 600 000) / 14.5 (loan balance at previous translation date)		
E2 027 586 = E2 000 000 + 307 692 – 238 727 – 41 379 (prior journal entries)		

Comment:
This is an example dealing with a LOAN RECEIVED by a local company from a foreign financier. Note how interest is translated at average rates, thus creating exchange differences when interest is paid at spot rates.

Solution 24.5

		Debit	Credit
1 July 20X7			
Foreign loan asset	*20 000 / 0.2*	100 000	
Bank			100 000
Issue of loan			
31 December 20X7			
Foreign loan asset	*(W1: 20 000 x 4.24% x 6/12) / 0.19*	2 232	
Interest income			2 232
Interest for the year			
Foreign loan asset	*(W1: c/b 20 424 / 0.17) – (capital 100 000 + interest 2 232)*	17 909	
Forex gain (P/L)			17 909
Exchange difference on translation of loan balance at year-end			
30 June 20X8			
Foreign loan asset	*(W1: 20 000 x 4.24% x 6/12) / 0.21*	2 019	
Interest income			2 019
Interest for 6 months			
Bank	*3 000 / 0.22*	13 636	
Foreign loan asset			13 636
1st instalment received			
31 December 20X8			
Foreign loan asset	*(W1: 17 848 x 4.24% x 6/12) / 0.24*	1 577	
Interest income			1 577
Interest for 6 months			
Forex loss (expense)	*(W1: c/b 18 227 / 0.24) – (o/b 120 141 + int 2 019 – rec 13 636 + int 1 577)*	34 155	
Foreign loan asset			34 155
Exchange difference on translation of loan balance at year-end			

Solution 24.5 continued …

W1: Amortisation Table (extract: for the first 3 years)

		Effective Interest (4.24%) AUS $	Instalment Received AUS $	Balance AUS $	Rate	Balance Rand
Year 1	1 July 20X7			20 000	0.20	100 000
Year 1: 1st 6 months	31 December 20X7	424	0	20 424	0.17	120 141
Year 1: 2nd 6 months	30 June 20X8	424	(3 000)	17 848	0.22	81 127
Year 2: 1st 6 months	31 December 20X8	379		18 227	0.24	75 946
Year 2: 2nd 6 months	30 June 20X9	378	(3 000)	15 605	(a)	(a)
Year 3: 1st 6 months	31 December 20X9	424		15 936	(a)	(a)
Year 3: 2nd 6 months	30 June 20X9	424	(3 000)	13 267	(a)	(a)

(a) the loan balances could not be calculated in Rands since the relevant exchange rates were not given.

The table (in Aus Dollars) could also have been done on an annual basis if preferred (the complete table for the entire 8 years is shown for your interest):

W1: ALTERNATIVE Amortisation Table

Year of the loan agreement	Interest @ 4.24% AUS $	Instalment AUS $	Balance AUS $
			20 000
Year 1 (to 30 June 20X8)	848	(3 000)	17 848
Year 2 (to 30 June 20X9)	757	(3 000)	15 605
Year 3 (to 30 June 20Y0)	662	(3 000)	13 267
Year 4 (to 30 June 20Y1)	563	(3 000)	10 830
Year 5 (to 30 June 20Y2)	459	(3 000)	8 289
Year 6 (to 30 June 20Y3)	351	(3 000)	5 640
Year 7 (to 30 June 20Y4)	239	(3 000)	2 879
Year 8 (to 30 June 20Y5)	122	(3 000)	1
	4 001	(24 000)	

Solution 24.6

a)

	Calculations	**Debit/ (Credit)**
30 September 20X3: transaction date		
Plant: cost	*(200 000 x 8.05)*	1 610 000
Foreign creditor		(1 610 000)
Acquisition of plant		
31 December 20X3: year-end		
Forex loss	*200 000 x (8.15 - 8.05)*	20 000
Foreign creditor		(20 000)
Restatement of creditor at year end		
Depreciation	*1 610 000 / 10 x 1/12*	13 417
Plant: accumulated depreciation		(13 417)
Depreciation of plant		
29 Feb 20X4: settlement date		
Forex loss	*200 000 x (8.20 – 8.15)*	10 000
Foreign creditor		(10 000)
Restatement of creditor on settlement date		
Foreign creditor	*200 000 x 8.20*	1 640 000
Bank		(1 640 000)
Settlement of the creditor		
31 December 20X4: year-end		
Depreciation	*1 610 000 / 10*	161 000
Plant: accumulated depreciation		(161 000)
Depreciation of plant		

Spot:	8.05	8.15	8.20
	TD 30 Sept	**Y/E 31 Dec**	**Settle 29 Feb**

Solution 24.6 continued …

b)

		Debit/ (Credit)
30 September 20X3: transaction date		
Plant: cost	*(200 000 x 8.05)*	1 610 000
Foreign creditor		(1 610 000)
Acquisition of plant		
31 December 20X3: year-end		
Forex loss	*(200 000 x 8.15 – 200 000 x 8.05)*	20 000
Foreign creditor		(20 000)
Restatement of the foreign creditor at year end		
FEC asset	*(200 000 x 8.40 – 200 000 x 8.10)*	60 000
Forex gain: FEC		(60 000)
Forex gain on the fair value hedge		
Depreciation	*1 610 000 / 10 x 1/12*	13 417
Plant: accumulated depreciation		(13 417)
Depreciation of plant		
29 February 20X4: settlement date		
Forex loss	*(200 000 x 8.20 – 200 000 x 8.15)*	10 000
Foreign creditor		(10 000)
Restatement of the creditor at settlement date		
FEC loss	*(200 000 x 8.20 – 200 000 x 8.40)*	40 000
FEC asset		(40 000)
Forex loss on the fair value hedge		
Foreign creditor	(Spot rate:8.20 x 200 000)	1 640 000
FEC asset	(Balance: 60 000 – 40 000)	(20 000)
Bank	(FEC rate: 8.10 x 200 000)	(1 620 000)
Settlement of the foreign creditor		
31 December 20X4: year-end		
Depreciation	*1 610 000 / 10*	161 000
Plant: accumulated depreciation		(161 000)
Depreciation of plant		

Spot:	8.05	8.15	8.20
	FEC TD 30 Sept	**YE 31 Dec**	**Settle 29 Feb**
	8.10	8.40	N/A

FEC – Forward Exchange Contract

Comment:
This question tests import of plant (a) without an FEC and then (b) with an FEC. Note the additional journals for the FEC and how it hedges forex movements in spot rates.

Solution 24.7

		Basis adjust (a) Debit/ (Credit)	Reclassification (b) Debit/ (Credit)
1 Dec 20X4: FEC entered into	***Calculations***		
No entries			
31 Dec 20X4: year-end			
FEC asset	*(150 000 x 8.21 – 150 000 x 8.05)*	24 000	24 000
FEC equity (OCI)		(24 000)	(24 000)
Gain on the cash flow hedge of a forecast transaction recognised as equity (disclosed as OCI)			
30 Jan 20X5: transaction date			
FEC asset	*(150 000 x 8.23 – 150 000 x 8.21)*	3 000	3 000
FEC equity (OCI)		(3 000)	(3 000)
*Gain on the **cash flow hedge** of a forecast transaction recognised as equity (disclosed as OCI)*			
Inventory	*8.18 x 150 000*	1 227 000	1 227 000
Foreign creditor		(1 227 000)	(1 227 000)
Import of the inventory			
FEC equity (OCI)	*24 000 + 3 000*	27 000	N/A
Inventory		(27 000)	N/A
Basis adjustment of the equity gain: OCI to non-financial asset			
28 Feb 20X5: payment date			
FEC asset	*(150 000 x 8.25 – 150 000 x 8.23)*	3 000	3 000
Forex gain (P/L)		(3 000)	(3 000)
Gain on the Fair Value hedge of a past transaction take directly to profit or loss			
Forex loss (P/L)	*(150 000 x 8.25 – 150 000 x 8.18)*	10 500	10 500
Foreign creditor		(10 500)	(10 500)
Restating the foreign creditor at spot rate on settlement date			
Foreign creditor	*8.25 x 150 000*	1 237 500	1 237 500
Bank	*8.05 x 150 000*	(1 207 500)	(1 207 500)
FEC asset	*24 000 + 3 000 + 3 000*	(30 000)	(30 000)
Settlement of the foreign creditor			
30 June 20X5: first sale of inventory			
Debtor		4 000 000	4 000 000
Sales		(4 000 000)	(4 000 000)
COS	*A: (1 227 000 –27 000) x 50%*	600 000	613 500
Inventory	*B: 1 227x 50%*	(600 000)	(613 500)
Sale of the inventory			
FEC equity (OCI)		N/A	13 500
Forex gain	*(24 000 +3 000) x 50%*	N/A	(13 500)
Reclassification adjustment: OCI (deferred gain on FEC in equity) to P/L when underlying asset affects profit or loss: 50% of inventory sold			
31 July 20X5: second sale of inventory			
Debtor		2 900 000	2 900 000
Sales		(2 900 000)	(2 900 000)
Cost of sales	*A: (1 227 000 – 27 000) x 50%*	600 000	613 500
Inventory	*B: 1 227 000 x 50%*	(600 000)	(613 500)
Sale of inventory			
FEC equity (OCI)		N/A	13 500
Forex gain (P/L)	*(24 000 + 3 000) x 50%*	N/A	(13 500)
Reclassification adjustment: OCI (deferred gain on FEC in equity) to P/L when underlying asset affects profit or loss: 50% of inventory sold			

Solution 24.7 continued …

A timeline that you may find useful:

Spot:	8.01 **FEC** **1 Dec**	8.08 **Y/E** **31 Dec**	8.18 **T/D** **30 Jan**	8.25 **Settle** **28 Feb**
FEC:	8.05	8.21	8.23	N/A

Comment:
This question shows the difference in method for accounting for cash flow hedges on FECs. The ultimate effect on profit or loss is the same amount under both the basis adjustment and reclassification methods.

Solution 24.8

		Debit	Credit
31 December 20X5: year-end			
FEC equity (OCI)	*500 000 x (7.22 – 7.45)*	115 000	
FEC liability			115 000
Pre-transaction FEC movement from date FEC entered into to year-end			
31 January 20X6: transaction date			
FEC liability	*500 000 x (7.43 – 7.22)*	105 000	
FEC equity (OCI)			105 000
Pre-transaction FEC movement from year-end to transaction date			
Equipment: cost	*500 000 x 7.40*	3 700 000	
Foreign creditor			3 700 000
Acquisition of computer equipment at spot rate on transaction date			
Equipment: cost		10 000	
FEC equity (OCI)	*115 000 – 105 000*		10 000
Basis adjustment on transaction date: OCI to non-financial asset			
28 February 20X6: payment of installation and other costs			
Equipment: cost	*100 000 x 8.10*	810 000	
Bank			810 000
Capitalisation of installation fee (IAS 16)			
Equipment: cost		20 000	
Bank			20 000
Capitalise cost necessarily incurred to bring asset to usable condition (hotel)			
30 April 20X6: payment date and FEC expiry			
FEC liability	*115 000 – 105 000*	10 000	
FEC asset	*85 000 – 10 000*	75 000	
FEC gain (P/L)	*500 000 x (7.60 – 7.43)*		85 000
FEC gain between transaction date and settlement date			
Forex loss (P/L)	*500 000 x (7.60 – 7.40)*	100 000	
Foreign creditor			100 000
Translation of creditor on payment date			
Foreign creditor	*(3 700 000 + 100 000)*	3 800 000	
FEC asset	*(above)*		75 000
Bank	*(500 000 x 7.45)*		3 725 000
Settlement of foreign creditor			
31 December 20X6: year-end			
Depreciation	*(3 700 000+ 810 000+ 10 000+*	756 667	
Equipment: accum. depreciation	*20 000) / 5 years x 10 / 12*		756 667
Depreciation charge for the year			

A timeline that you may find useful:

Spot:	7.50	7.20	7.40	7.60
	FEC	**Y/E**	**T/D**	**Settle**
	1 July X5	**31 Dec X5**	**31 Jan X6**	**30 April X6**
FEC	7.45	7.22	7.43	7.60

Comment:
This question integrates foreign exchange, FEC's and accounting for property plant and equipment. Note the effects of the basis adjustment method and other directly attributable costs on the cost of the equipment and subsequent depreciation.

Solution 24.9

		(a): CFH Debit (Credit)	(b): FVH Debit (Credit)
30 November X4: date FEC entered into			
No entries			
31 December X4: year-end			
FEC asset	*(450 000 x 6.21 – 450 000 x 6.12)*	40 500	40 500
FEC equity (OCI)		(40 500)	(40 500)
Gain on the cash flow hedge of a forecast transaction recognised in equity (disclosed as OCI)			
31 January X5: firm commitment			
FEC equity (OCI)	*(450 000 x 6.05 – 450 000 x 6.21)*	72 000	72 000
FEC asset		(40 500)	(40 500)
FEC liability		(31 500)	(31 500)
Loss on the cash flow hedge of a forecast transaction recognised in equity (disclosed as OCI)			
14 February X5: transaction date			
FEC loss (P/L)	*(450 000 x 6.01 – 450 000 x 6.05)*	0	18 000
FEC liability		0	(18 000)
Loss on the hedge of a firm commitment recognised in profit or loss			
Firm commitment asset	*(450 000 x 5.99 – 450 000 x 6.00)*	0	4 500
Forex gain (P/L)		0	(4 500)
Gain on the firm commitment recognised in profit or loss			
FEC equity (OCI)	*(450 000 x 6.01 – 450 000 x 6.05)*	18 000	0
FEC liability		(18 000)	0
Loss on the cash flow hedge of a forecast transaction recognised in equity (disclosed as OCI)			
Equipment: cost	*5.99 x 450 000*	2 695 500	2 695 500
Foreign creditor		(2 695 500)	(2 695 500)
Import of the equipment			
Equipment: cost		0	4 500
Firm commitment asset		0	(4 500)
Firm commitment transferred to the asset base on transaction date.			
31 May X5: payment date			
Forex loss (P/L)	*(450 000 x 5.96 – 450 000 x 6.01)*	22 500	22 500
FEC liability		(22 500)	(22 500)
Loss on the fair value hedge of a past transaction recognised in profit & loss			
Foreign creditor	*(450 000 x 5.96 – 450 000 x 5.99)*	13 500	13 500
Forex gain (P/L)		(13 500)	(13 500)
Restating the foreign creditor at spot rate on settlement date			
Foreign creditor	*5.96 x 450 000*	2 682 000	2 682 000
Bank	*6.12 x 450 000*	(2 754 000)	(2 754 000)
FEC liability	*(A: 40 500 – L (40 00+31500+18000+22500)*	72 000	72 000
Settlement of the foreign creditor			
31 December X5: year-end			
Depreciation	*A: (2 695 500)/10yrs x 10.5/12 months*	235 856	236 250
Equipment: accum. depr.	*B: (2 695 500 + 4 500) /10 yrs x 10.5/12*	(235 856)	(236 250)
Depreciation of equipment			
FEC loss (P/L)	*A: 49 500/ 10 x 10.5/12*	4 331	2 756
FEC equity (OCI)	*B: 31 500/10 x 10.5/12*	(4 331)	(2 756)
Reclassification adjustment of the FEC loss in equity: OCI to profit and loss (this transfer from OCI to P/L happens over the useful life of the equipment)			

Solution 24.9 continued …

The balance sitting in equity just before reclassification on 31 December 20X5 can be checked as follows:

(a)
firm commitment treated as a cash flow hedge (i.e. the entire pre-transaction period is treated as a CFH):

- (6.01 – 6.12) x 450 000 = 49 500 (deferred loss, therefore a debit equity balance)

(b)
firm commitment treated as a fair value hedge (pre-transaction period to firm commitment date is still a cash flow hedge):

- (6.05 – 6.12) x 450 000 = 31 500 (deferred loss, therefore a debit equity balance)

A timeline that you may find useful:

Spot:	6.10	6.19	6.00	5.99	5.96
	FEC	YE	Firm C	TD	Settlement
	30 Nov X4	31 Dec X4	31 Jan X5	14 Feb X5	31 May X5
FEC:	6.12	6.21	6.05	6.01	N/A

Comment:
This question compares the alternative accounting treatments of a firm commitment. Note how a firm commitment asset or a liability is only created under the fair value hedge option (FVH) owing to changes in FEC rates. If the cash flow hedge option (CFH) is chosen, the entire pre-transaction date period is treated as a normal cash flow hedge with gains/ losses taken to other comprehensive income (equity).

Solution 24.10

		Debit	Credit
1 October 20X7			
No entry			
31 December 20X7			
FEC Equity (OCI)	*(200 000 x (12,30 – 11.20))*	220 000	
FEC Liability			220 000
Gain or loss on FEC at year-end			
31 January 20X8			
Foreign Debtor	*(200 000 x 13.10)*	2 620 000	
Revenue			2 620 000
Sale of machine			
Cost of Sales	*(Given)*	1 500 000	
Inventory			1 500 000
Cost of goods sold			
FEC Equity (OCI)	*(200 000 x (12.90 – 12.30))*	120 000	
FEC Liability			120 000
Gain or loss on FEC on transaction date			
Revenue	*(220 000 + 120 000)*	340 000	
FEC Equity (OCI)			340 000
Reversal of CFH equity:			
28 February 20X8			
Forex Loss (P/L)	*(200 000 x (11.90 – 13.10))*	240 000	
Foreign Debtor			240 000
Translation of debtor on settlement date			
FEC Liability	*(200 000 x (12.90 – 11.90))*	200 000	
Forex Gain (P/L)			200 000
Gain or loss on FEC on settlement date			
FEC Liability	*(220 000 + 120 000 – 200 000)*	140 000	
Bank	*(200 000 x 11.20)*	2 240 000	
Foreign Debtor	*(200 000 x 11.90)*		2 380 000
Settlement received from debtor			

Solution 24.11

a) Journals: 20X8 and 20X9

		Debit	Credit
31 March 20X8			
FEC asset	*20 000 x (9.34 – 9.15)*	3 800	
FEC equity (OCI)			3 800
Measurement of FEC asset on transaction date			
Vehicles: cost	*20 000 x 9.17*	183 400	
Foreign creditor			183 400
Purchase of vehicle			
30 June 20X8			
Forex loss: FEC (P/L)	*20 000 x (9.21 – 9.34)*	2 600	
FEC asset			2 600
Measurement of FEC asset at year-end			
Foreign creditor	*20 000 x (9.07 – 9.17)*	2 000	
Forex gain: creditor (P/L)			2 000
Translation of creditors at year-end			
Depreciation - vehicles	*(183 400 – 0) / 5yrs x 1/12*	3 057	
Vehicles: accumulated depreciation			3 057
Depreciation of vehicles from date first available for use (1 June)			
FEC equity (OCI)	*3 800 / 5yrs x 1/12*	63	
Forex gain: FEC (P/L)			63
Reclassification adjustment (one month of asset's life used up)			
31 July 20X8			
Forex loss: FEC (P/L)	*20 000 x (9.21 – 8.83)*	7 600	
FEC asset/liability			7 600
Measurement of FEC asset			
Foreign creditor	*20 000 x (9.07 – 8.83)*	4 800	
Forex gain: creditor (P/L)			4 800
Translation of foreign creditor on transaction date			
FEC liability	*3 800 – 2 600 – 7 600*	6 400	
Foreign creditor	*20 000 x 8.83*	176 600	
Bank	*20 000 x 9.15*		183 000
Settlement of creditor			
30 June 20X9			
Depreciation – vehicles	*(183 400 – 0) / 5 yrs*	36 680	
Vehicles: accumulated depreciation			36 680
Depreciation of vehicles:			
FEC Equity (OCI)	*3 800 / 5 yrs*	760	
Forex gain: FEC(P/L)			760
Reclassification adjustment (one year of asset's life used up)			

Solution 24.11

b) Note disclosure

KANGA LTD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 20X8

7. Cash flow hedge reserve		**20X8** **C**
Gains taken to equity		3 800
Transferred to deferred tax	*3 800 x 30%*	(1 140)
Reclassified to profit/loss		(63)
Transferred from deferred tax	*63 x 30%*	19

8. Profit before tax

Profit before tax is stated after taking the following into account:

Income:	
• Foreign exchange gain on creditors	2 000
• FEC gain (reclassification adjustment)	63
Expenses:	
• FEC loss	2 600
• Depreciation on vehicles	

Solution 24.12

Journals

		Debit	Credit
1 February 20X8 (date FEC entered into)			
No journal entry			
10 February 20X8 (transaction date)			
Plant: cost	*1 000 000 x 5.80*	5 800 000	
Foreign creditor			5 800 000
Purchase of plant from a foreign creditor			
FEC asset	*1 000 000 x (6.00 – 5.50)*	500 000	
Plant: cost			500 000
Recognition of FEC on transaction date (CFH – basis adjustment)			
28 February 20X8 (year-end)			
Foreign exchange loss	*1 000 000 x (7.00 – 5.80)*	1 200 000	
Foreign creditor			1 200 000
Re-measurement of foreign creditor at year-end			
FEC asset	*1 000 000 x (7.30 – 6.00)*	1 300 000	
Forex gain: FEC (P/L)			1 300 000
Re-measurement of FEC at year-end			
31 March 20X8 (payment date)			
Foreign exchange loss	*1 000 000 x (8.80 – 7.00)*	1 800 000	
Foreign creditor			1 800 000
Re-measurement of foreign creditor on payment date			
FEC asset	*1 000 000 x (8.80 – 7.30)*	1 500 000	
Forex gain: FEC (P/L)			1 500 000
Re-measurement of FEC on payment date			
Foreign creditor	*1 000 000 x 8.80*	8 800 000	
FEC asset	*500 000 + 1 300 000 + 1 500 000*		3 300 000
Bank	*1 000 000 x 5.50*		5 500 000
Settlement of creditor			
28 February 20X9 (year-end)			
Depreciation - plant	*(5 800 000 – 300 000 – RV: 0) / 10 x 12/12*	550 000	
Plant: accum. depreciation			550 000
Re-measurement of foreign creditor on payment date			